NEW ENGLAND POWER COMPANY
AMENDMENT TO SERVICE AGREEMENT WITH MASSACHUSETTS ELECTRIC COMPANY UNDER FERC ELECTRIC TARIFF, ORIGINAL VOLUME NO. 1
FORMULA FOR CALCULATING CONTRACT TERMINATION CHARGES

1.1 The Fixed Component of the Contract Termination shall include Mass. Electric's 72.6% allocated share of NEP's costs as shown on Schedule 1, Page 2, which shall include:

1.1.1 Revenues sufficient to amortize over a twelve year period commencing on January 1, 1998 and continuing through December 31, 2009 the following plant balances and regulatory assets:

(a) Plant balances shall include the unrecovered net book value as shown on Schedule 1, Page 5, Column (7), of the following NEP generation-related investments as of January 1, 1998, excluding any capital additions made after December 31, 1995:

(i) Brayton Point Units 1, 2, 3, 4, including the Brayton Point Diesels; Salem Harbor Units 1, 2, 3, 4; Wyman Unit 4;
(ii) Manchester Street Station, including prepaid property tax payments made in accordance with a tax treaty with the City of Providence, and capital additions past December 31, 1995 but committed prior to that date;
(iii) NEP Hydro Units;
(iv) Bear Swamp Pumped Storage Facility;
(v) NEP's Entitlements in the Maine Yankee and Vermont Yankee Units;
(vi) NEP's ownership share of Millstone Unit 3;
(vii) NEP's ownership share of Seabrook Unit 1;
(viii) Step-up transformers at NEP generating units which are excluded from NEP's transmission rates;
(ix) General plant allocated to generation;
(x) Generation-related property held for future use and non-utility property;
(xi) Generation-related investment in the Nantucket Diesels; and
(xii) Generation-related investment in the NEP Diesels at Gloucester and Newburyport.

The plant balances for NEP's entitlements and ownership shares in nuclear units (items v, vi, and vii, above) shall also include the balances for the final fuel cores and materials and supplies; and

(b) Regulatory assets shall include the generation-related unrecovered net book balances shown in Schedule 1, Page 6, Column (2), as of December 31, 1997:

(i) FAS 109;
(ii) Unamortized losses on Reacquired Debt;
(iii) Unamortized pipeline demand charges deferred prior to the commercial operation of Manchester Street;
(iv) NEEI;
(v) FAS 106 Transition Obligation of NEP and allocated to NEP by affiliates;
(vi) Unamortized power contract buyout costs;
(vii) Rate clauses;
(viii) Seabrook tax true-up;
(ix) Decontamination and decommissioning costs; and
(x) Unamortized ITC.
(xi) W-95 Settlement Adjustment Account

1.1.2 Revenues sufficient to provide an overall pre-tax return of 11.18 percent based on a combined state and federal income tax rate of 39.225 percent, which shall remain fixed through December 31, 2009, on NEP's 1995 year-end capital structure as shown in Schedule 1, Page 15, Column (6), including a return on equity of 9.4 percent,[1] multiplied by the average of the beginning and ending balances in each calendar year beginning in the year of the Contract Termination Date, of the sum of the following:

(a) Unrecovered net book value of NEP's generation investments as defined under 1.1.1(a) above, plus

(b) Unrecovered net book value of generation-related Regulatory Assets as defined under 1.1.1(b) above, less

(c) Deferred Taxes as shown in Schedule 1, Page 14, Column (9), equal to the combined state and federal income tax rate of 39.225 percent, which shall remain fixed through December 31, 2009, multiplied by the sum of:

(i) the unrecovered net book value of NEP's generation investment, plus
(ii) the unrecovered net book value of generation-related regulatory assets, less
(iii) the unrecovered balance of generation investment for tax purposes, less
(iv) the unrecovered balance of generation-related regulatory assets for tax purposes.

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[1]The equity return of 9.4 percent will also be applied to NEP's equity investment in the Ocean State Power facility for purposes of calculating Contract Termination Charges under the Amendment. In addition for purposes of the Contract Termination Charges, NEP's investments in the Yankee Company's are set at a 9.4 percent equity return.

1.1.3 Transmission wheeling charges as shown in Schedule 1, Pages 2 and 13, for the period prior to December 31, 2009, associated with the transmission of electricity from NEP's entitlements in Connecticut Yankee, Maine Yankee, Millstone Unit 3, Wyman Unit 4, Vermont Yankee, and NEP's purchase from a slice of Northeast Utilities system, which units are located off of NEP's transmission system, together with support payments to Central Maine Power and Connecticut Light and Power which are necessary for the transmission of NEP's remote generation. These wheeling and support payments are excluded from recovery under NEP's open access transmission tariffs.

1.1.4 The costs independent of operating NEP's entitlements in the nuclear units listed in items v, vi, and vii of Section 1.1.1(a) above representing the operations and maintenance expenses and property taxes that would be incurred prior to the earlier of December 31, 2009 or the expiration date of the unit's operating license from the Nuclear Regulatory Commission assuming that these nuclear units were to cease operating on December 31, 1997, excluding the costs independent of operating Yankee Rowe and Connecticut Yankee, which are included in the Variable Component.

1.1.5 The Fixed Components shall be subject only to the following adjustments:

(a) For each month that the Contract Termination Date is delayed beyond January 1, 1998, NEP shall credit the Variable Component of the Contract Termination Charge by the amount calculated in accordance with Schedule 2 representing the amount by which the rate of depreciation and amortization expense authorized under the W-95(S) Settlement or a superseding wholesale rate, if any, is above the amortization authorized under Section 1.1.1 and the associated return computed in accordance with Section 1.1.2 of this Agreement. The monthly adjustment shall be accumulated in the Reconciliation Account established below, and will be reflected in the adjustments to NEP's Contract Termination Charges to Mass. Electric commencing on January 1, 2001.

(b) NEP shall reconcile the balances for changes in: (1) the accumulated post-retirement benefit obligation associated with the FAS 106 transition obligation; (2) the accumulated funded or unfunded pension obligation under FAS 87; and (3) the FAS 109 regulatory asset as of the divestiture date from the estimated balances as of the divestiture date included in Section 1.1.1(b) and include any difference, whether positive or negative, with a return in the Reconciliation Account.

(c) NEP has agreed to divest its generating business within six months after the later of the Retail Access Date or the receipt of all governmental approvals and other consents necessary for the divestiture. Within three months after the completion of divestiture, NEP shall implement a residual value credit as a direct offset to the Contract Termination Charges authorized under this Agreement. The residual value credit shall be calculated by applying Mass. Electric's percentage allocation of the Fixed Component to the Net Proceeds of the market valuation calculated as follows:

(i) Total Proceeds equal to the sale price received by NEP, less

(ii) The revenues lost by NEP between the Retail Access Date and the divestiture date measured by the difference between the revenues that NEP would have collected under Rate W-95(S) or a superseding wholesale rate, if any, had it continued to make the sales to Mass. Electric under Tariff 1 and the revenues that it actually collected from the contract termination charge and for transmission and sales to Mass. Electric's customers during the period together with a credit for Mass. Electric's share of the revenue from sales made by NEP to third parties during the period, provided, however, the lost revenues so calculated shall not exceed \$0.008 per kilowatthour times the number of kilowatthours delivered by Mass. Electric during the period between the Retail Access Date and the date of divestiture. If the divestiture date occurs after January 1, 1999, NEP shall provide a report to the Commission and the Signatories setting forth the reasons for the delay, and demonstrating its reasonableness, less

(iii) Mass. Electric's share of capital investments demonstrated to be prudently incurred after December 31, 1995, excluded from the plant balances in Section 1.1.1 (a) above, less

(iv) Reasonable transaction costs associated with the market valuation including the cost of refinancings.

The Net Proceeds from the divestiture including amortization and the pretax return specified in Section 1.1.2 on the unreturned credit balance net of tax impacts shall be credited to the Fixed Component in equal annual amounts over the period commencing on the date the Residual Value Credit is implemented through December 31, 2009.

1.2 The Variable Component of the Contract Termination Charge shall include Mass. Electric's allocated share of the items specified in Section 1.2.3, below adjusted for the Reconciliation Account discussed in Sections 1.2.1 and 1.2.2, below.

1.2.1 The Variable Component shall be adjusted through a Reconciliation Adjustment in which differences, whether positive or negative, between the estimates for Contract Termination Charge Payments by Mass. Electric and Mass. Electric's allocated share of the estimated variable costs listed in Section 1.2.3 below and actual Contract Termination Charge payments by Mass. Electric and its allocated share of the actual variable costs will be accumulated in a Reconciliation Account and added to or subtracted from the Contract Termination Charge from NEP to Mass. Electric. The Reconciliation Account shall also include the adjustment if any under Section 1.1.5(a) above, caused by a deferral in the Contract Termination Date, and under Section 1.1.5(b) above for the reconciliations of FAS 106, FAS 87, and FAS 109 balances. A pretax return equal to that specified in Section 1.1.2 shall be included on any balance in the Reconciliation Account, whether positive or negative.

The Reconciliation Account shall accumulate through December 31, 2000, and shall be used to adjust NEP's Base Contract Termination Charges to Mass. Electric on January 1, 2001. Thus, effective January 1, 2001, NEP shall return or collect Mass. Electric's allocated share of any outstanding balance in the Reconciliation Account by implementing an adjustment to the Base Contract Termination Charges to Mass. Electric. Thereafter, the balance including the accumulated return in the Reconciliation Account at the end of a year shall be used to adjust NEP's Base Contract Termination Charges for the following year. Reconciliation Account adjustments to the Contract Termination Charges shall not cause the Contract Termination Charges to exceed 2.8 cents per kilowatthour. Any deferrals caused by the limitation in the prior sentence shall be carried forward with a return into the next annual adjustment to the Base Contract Termination Charge.

1.2.2 Through December 31, 2009, the Reconciliation Account shall also include an Termination Charge Mitigation Incentive which shall increase the Variable Cost Component when NEP mitigates the Contract Termination Charge and reduces the cumulative average of the cents per kilowatthour Contract Termination Charge to Mass. Electric below 2.8 cents per kilowatthour. The schedule of rewards for each level of the cumulative average Contract Termination Charge in each year from 2001 through 2009 is shown on Schedule 1, page 4.

1.2.3 Mass. Electric's allocated share of the specific cost items included in the Variable Component are set forth in Schedule 1 at page 3. The difference between Mass. Electric's allocated share of the actual variable costs incurred by NEP and the estimated variable costs in this section shall be included in the Reconciliation Account. The costs included in the Variable Component shall include the following:

(a) Nuclear Decommissioning shown in Schedule 1, Page 8, will be all charges, excluding any net incremental decommissioning costs caused by operations after the Retail Access Date for decommissioning and site restoration assessed to NEP by the operators of each nuclear electric generating facility specified in Section 1.1.1(a) (v), (vi) and (vii) above, subject to the regulatory authority of the agencies having jurisdiction over the operation and collection of such funds together with the costs independent of operating Yankee Rowe and Connecticut Yankee. The decommissioning costs will be placed in irrevocable trusts in accordance with NRC regulations. If, upon the completion of decommissioning for any of the above listed nuclear generating facilities, it is determined that there has been an over collection of funds, such over collection will be transferred to NEP's decommissioning fund for either Millstone 3 or Seabrook 1 pending final disposition of their decommissioning. Once all decommissioning is complete, any over collection will be refunded to Mass. Electric in the Reconciliation Adjustment.

(b) Above Market Payments to Power Suppliers will be (i) all payments by NEP for Long-Term Power Supply Contracts less the market value realized from the resale of electricity purchased under the contracts into the wholesale market, plus (ii) Economic Buyout Payments associated with those contracts, less (iii) Credit for Unit Sales Contracts.

(i) Long-Term Power Supply Contracts will be all power supply contracts in place as of December 31, 1995, between NEP and a third party supplier, continuing to the termination date of each contract, less the market value of those contracts, as shown in Schedule 1, Page 3, Columns (3) through (5). The Long-Term Supply Contracts include:

(1) Ocean State Power
(2) Canal
(3) NU Slice
(4) Lawrence Hydro
(5) Mascoma Hydro
(6) Pontook Hydro
(7) Northeast Landfill
(8) Turnkey
(9) Ogden Haverhill
(10) RESCO Saugus
(11) RESCO N. Andover
(12) Signal - Millbury
(13) Hydro MWRA
(14) RFA Lawrence
(15) ALTRESCO
(16) Clark University
(17) Milford Power
(18) Pawtucket
(19) Barre Landfill
(20) Nashua Landfill
(21) Plainville Landfill
(22) Randolph Landfill
(23) NEP Windplant 1, Phase 1
(24) NEP Windplant 1, Phase 2
(25) NEP Windplant 1, Phase 3
(26) Hydro Quebec
(27) Genesis Johnston

(ii) Economic Buyout Payments will be all reasonable payments by NEP associated with the early termination of Long-Term Power Supply Contracts or costs incurred to reduce payments under those contracts.

(iii) Credit for Unit Sales Contracts will be all unit sales contracts entered into by NEP as of December 31, 1995, for sales from the following generating units if they are not otherwise subject to market valuation less the market value of these contracts as shown in Schedule 1, Page 3, Columns (7) through (9). Units Sales Contracts include contracts for NEP's sale of power from the following units:

(1) Ocean State Power
(2) Maine Yankee
(3) Millstone 3
(4) Seabrook I

(c) <u>Above Market Fuel Transportation</u> as shown in Schedule 1, Page 12, will be the sum of NEP's continuing long-term payment obligations associated with (i) Capacity Payments to Interstate Natural Gas Pipelines less the market value of that capacity, and (ii) Coal Ship Obligations less the Market Value associated with those obligations (see Schedule 1, page 12).

(i) Capacity Payments to Interstate Natural Gas Pipelines will be all capacity payments for Interstate Pipeline Capacity Contracts in effect as of December 31, 1995. They include:

(1) NOVA
(2) TCPL
(3) Iroquois
(4) Tennessee
(5) Algonquin
(6) ANR
(7) Columbia
(8) Distrigas
(9) Providence Gas
(10) Brayton Point Lateral

The Market Value of Capacity Payments to Interstate Natural Gas Pipelines will equal the actual proceeds associated with the sale or assignment or termination of contractual obligations. For the purposes of calculating the Base Contract Termination Charges and the estimate included in the Reconciliation Account, the Market Value of Capacity Payments to Interstate Natural Gas Pipelines equals the amounts shown on page 12 of Schedule 1, which are assumed to be 50 percent of such capacity payments.

(ii) Coal Ship Obligations will be all payments by NEP under its charter with the Energy Enterprise until the contract is otherwise terminated or assigned. The market value of these Coal Ship Obligations will equal the actual proceeds associated with the assignment or termination of the charter with the Energy Enterprise, and are assumed to be zero for the purpose of calculating the Base Contract Termination Charges and the estimate included in the Reconciliation Account. See Schedule 1, page 12.

(d) Payments in Lieu of Property Taxes will include all reasonable costs incurred by NEP or its affiliates associated with payments in lieu of property taxes to the cities and towns in which NEP owns generating facilities to mitigate the loss of tax revenues that those cities and towns would otherwise incur in connection with restructuring. For the purposes of calculating the Base Contract Termination Charges and the estimate included in the Reconciling Account, the Payments in Lieu of Property Taxes are assumed to be zero.

(e) Employee Severance and Retraining as shown in Schedule 1, page 3, Column (12), will include all reasonable costs and expenses incurred by NEP or its affiliates associated with the implementation of retail access, divestiture, or the termination of NEP's Tariff No 1, including, but not limited to early retirement, severance, retraining and other reasonable costs. For the purposes of calculating the Base Contract Termination Charges and the estimate included in the Reconciliation Account, the Employee Severance and Retraining Costs are assumed to be zero.

(f) Damages, Costs, or Net Recoveries from claims by or against third parties shall include all damages, costs, or recoveries associated with NEP's generating business which accrued prior to the date of divestiture and which were not assigned to NEP's successor in interest, or recovered from NEP's insurance carriers. For the purposes of calculating the Base Contract Termination Charges and the estimate included in the Reconciliation Account, Damages, Costs, or Net Recoveries from claims were assumed to be zero.

(g) Performance Based Rate for Nuclear Units Remaining After Divestiture shall credit any net positive value or recover any payments associated with the sale, lease or disposal of nuclear units or entitlements. If NEP is unable to sell, lease, assign, or otherwise dispose of its nuclear units or entitlements on the terms set forth in the Agreement of even date, the Performance Based Rate shall include 80 percent of the going forward costs, including variable costs and capital additions, associated with NEP's nuclear units or entitlements that are not otherwise recovered in contract termination charges less 80 percent of the revenues from sales of energy or capacity from such units or entitlements that are not otherwise reflected in contract termination charges. Within six months prior to implementing the Performance Based Rate, NEP will consult with the Signatories on a performance standard for nuclear safety indicators and will file such performance standard with a maximum potential credit for nonperformance of $1 million. Such sales, if any, shall only be made in the wholesale market to nonaffiliates provided, however, that NEP shall retain the right to use its minority shares of the units or entitlements to fulfill its minimum, zero bid obligations under the standard offer. For the purpose of calculating the Base Contract Termination Charges and the estimate included in the Reconciliation Account, the Performance Based Rate for Nuclear Units is assumed to be zero.

List of Attachments

Attachment 1: New England Power Company, Primary Service for Resale, Amendment to Service Agreement

- Attachment 1: New England Power Company, Formula for Calculating Contract Termination Charges
  - Schedule 1: Summary of Contract Termination Charges
  - Schedule 2: Calculation of Adjustment for Deferral of Contract Termination Date

Attachment 2: Agreement to Credit Tariff 1 Fuel Clause with Revenues Representing the Fixed Cost Contribution from Departing Customers

Attachment 3: Service Agreement on Network Integration Transmission Service

Attachment 4: Massachusetts Electric Company -- Term Sheet for Bidding Standard Offer Service including Fuel Index

Attachment 5: New England Power Company -- Emission Reductions from Salem Harbor and Brayton Point Stations